

**FEDERAL HOME LOAN BANK
OF PITTSBURGH**

**COMMUNITY LENDING PLAN
2002**

Approved: January 18, 2002

I. BACKGROUND / RATIONALE

The Federal Home Loan Bank of Pittsburgh (Bank) is pleased to provide its Year 2002 Community Lending Plan (hereinafter "Plan"). The Plan describes the Bank's efforts to assist its members in reaching their comprehensive housing and economic development goals for the communities they serve. Within this Plan, we provide a summary of the unmet credit needs and market opportunities identified by the Bank for its district, which includes Delaware, Pennsylvania and West Virginia. These findings were derived from a variety of sources, including regional community meetings conducted in 1999 – 2000.

On December 28, 1998, the Federal Housing Finance Board (FHFB) passed the Community Investment Cash Advance (CICA) regulation, affecting each of the twelve Federal Home Loan Banks. Under CICA, each Home Loan Bank is required to complete an initial assessment of the credit needs and market opportunities for community lending in its district. The new regulation also required each Bank to develop an annual Community Lending Plan on or before January 31st. The Plan must be approved by the Bank's Board of Directors and submitted to the FHFB. While encouraging the Bank to develop new programs and initiatives, the regulation ultimately promotes renewed participation of member financial institutions in the comprehensive housing and economic development of their communities. Requirements of the Plan are provided below.

A. Development of the plan requires that each Bank:

- ◆ Conduct market research in the Bank's district.
- ◆ Describe how the Bank will address the identified unmet credit needs and market opportunities in the Bank's district for community lending.
- ◆ Consult with its Affordable Housing Advisory Council, its member institutions, nonmember borrowers and public and private economic development organizations in the district in developing and implementing its Plan.
- ◆ Establish quantitative community lending performance goals.

B. Each Bank must provide its member institutions with an annual notice containing:

- ◆ The identification of CICA programs and other Bank activities that may provide opportunities for a member to meet the community support requirements and to engage in community lending.
- ◆ Summaries of affordable community lending and housing activities undertaken by member institutions, nonmember borrowers, nonprofit housing developers, community groups, or other entities in the Bank's district, that may provide opportunities for a member to meet the community support requirements and to engage in community lending.

In response to the requirements set forth within the CICA regulation, the Federal Home Loan Bank of Pittsburgh implemented the following initiatives:

1. **Market Research** – In 2001, the Bank completed a series of product workshops and focus group meetings. These focus group meetings augmented an analysis of credit needs and market opportunities conducted in 1999 – 2000.
2. **Action Plan** – In this plan, the Bank provides an action strategy describing its intentions to address the credit needs and market opportunities identified during the market research.
3. **Consultations with Bank Stakeholders** – In the development of this Plan and during the preparation of the Needs Assessment and Market Opportunities Report, the Bank consulted with the following organizations:
 - ◆ Affordable Housing Advisory Council (AHAC)
 - ◆ Member financial institutions and nonmember borrowers
 - ◆ Public and private economic development organizations
4. **Performance Goals** – In this report, the Bank has established quantitative community lending performance goals.

II. CREDIT NEEDS AND MARKET OPPORTUNITIES SUMMARY

A. MARKET RESEARCH PROCESS

The Bank will annually conduct research in the Bank's district to identify opportunities for stockholders to increase the availability of affordable housing finance, community development finance, and financial and credit services in underserved neighborhoods and communities. In conducting research and identifying opportunities, the Bank will consult with stockholders, nonmember borrowers, the Advisory Council and public and private housing and economic development organizations within the district.

Market research was conducted in 1999 – 2001 through the use of both primary and secondary sources. Primary sources include interviews, surveys and direct observations. Secondary sources involve reviewing research and analysis prepared by other entities.

The FHLB of Pittsburgh conducted market research in 1999 to identify potential credit needs and market opportunities. A Credit Needs and Market Opportunities Report was submitted to the Federal Housing Finance Board in July, 1999. In 2001, the Bank conducted four (4) regional workshops to further explore the needs and opportunities in the District. The objectives of this research included:

- Determining the community lending gaps within the 3rd District;
- Identifying the District's most critical credit needs;
- Evaluating opportunities to target the Bank's financial and technical resources, within the Bank's Key Mission Principles¹, to assist member financial institutions to address identified credit gaps.

The research included an examination of the credit needs within the Bank's District through the following process:

- Analysis of the CICA regulation and the implications of the Community Reinvestment Act on community lending;
- Evaluation of the Bank's existing tools for community and economic development, primarily the Community Lending Program;
- Review of relevant existing reports and studies, including statewide consolidated plans;

¹ Key Mission Principles:

- *The FHLBank should not compete with members.*
- *Housing is still the principal focus of the FHLB.*
- *The FHLBank should focus on support of community banks.*
- *The FHLBank has a special mission to facilitate projects that are "bankable" but need extra assistance in technical or financial engineering.*

- Outreach efforts to key economic development stakeholders including:
 - Member financial institutions
 - Public/private economic development organizations
 - Community financial intermediaries and technical assistance organizations
 - The Bank's Board of Directors and Affordable Housing Advisory Council

The report draws on all of these resources to provide an understanding of the district's credit needs and market opportunities.

B. SUMMARY OF CREDIT NEEDS AND MARKET OPPORTUNITIES

The research identified credit needs and market opportunities for community lending. These were as follows:

- ◆ In many non-profit organizations there continued to be a "brain drain" caused by the loss of skilled, experienced personnel to private sector jobs in other states or regions. This creates the need to continually train new personnel and develop renewed relationships with funders (like the Bank) and government agencies. Throughout the district (particularly in West Virginia and in rural areas), there is a lack of experienced development organizations who fully understand the pre-requisites to become a competitive applicant for FHLB, HUD and other national/regional funding sources.
- ◆ The lack of modern sewage, water, roads and other infrastructure necessities is still a significant problem in many rural communities. In most cases, the problem is better defined as having very old and underdeveloped systems that can no longer handle the needs of more modern communities.
- ◆ Funding programs locally, statewide and nationally do not complement each other in their targeted goals and application process. This creates a zero-sum situation where developers must often choose to mold a project to meet the needs of one funding source, at the expense of meeting the preferences for a second (although needed) funding source. For this reason, many projects are not fully funded and are therefore never implemented.
- ◆ Small businesses are clearly the major provider of employment opportunities within the district. Assistance for start-up and expansion of small businesses is a significant need within the district.
- ◆ There is a clear need to address the lack of available credit for firms located within low-income areas and for minority-owned and women-owned firms regardless of their locations.
- ◆ There are certain transactions that local banks cannot fund. Local nonprofits, Small Business Investment Companies (SBICs) and Community Development Financial Institutions (CDFIs) could serve as conduits for financing of small businesses without sacrificing the importance of proper credit worthiness analysis.

- ◆ Rural businesses show disparities in available credit sources and a lack of local organizations to serve as financing conduits and technical assistance providers.
- ◆ The need for equity capital, collateral enhancements or lower interest rates are the most common barriers to small businesses.
- ◆ Monitoring should be minimized as much as possible in any program offered by the Bank. For example, job creation is a limited measurement of success for any economic development program. It would be preferable to utilize those factors which offer a look at the individual needs of the business and the area within which it operates.
- ◆ Economic development programs should be linked to technical assistance through entities such as Service Corps of Retired Executives (SCORE) or Small Business Development Centers.
- ◆ Comprehensive and sustainable community development, including site preparation and redevelopment and neighborhood revitalization, are high priorities. However, most comprehensive strategies, such as brownfield redevelopment, require substantial public subsidies.

III. 2001 Performance and 2002 ACTION PLAN

The Bank had a very active and exciting year. The Bank committed a record amount of subsidy under the Affordable Housing Program (AHP), \$16 million, and the Homebuyer Equity Fund (HBEF), \$5 million. The Bank's Banking on Business (BOB), which was launched in 2000, had an extremely successful year in 2001. By the end of 2001, more than \$7 million in BOB funds were committed to small businesses. The Bank has continually expanded the number of members enrolled in BOB and HBEF. The Bank introduced two new initiatives in 2001, Emergency Assistance and Capacity Building. A web-based AHP application was made available for project submissions in round 2001B.

The most significant initiative in 2001 was the Bank's creation of a flood relief program to assist low and moderate-income flood victims of a major flood in West Virginia. The Bank set aside up to \$1 million for housing rehabilitation and home purchase for families in the flood areas. After a slow start, the program has gained some momentum. By the end of 2001, just over \$125,000 has been committed to help flood victims. The Bank will maintain the set aside until July 2002.

The Bank had an excellent year building relationships with the Pennsylvania Housing Finance Agency (PHFA), Delaware State Housing Authority and the West Virginia Housing Development Fund.

The following summarizes the Bank's performance in 2001 and sets the CLP goals for 2002:

<u>2001 Goals</u>	<u>2001 Performance</u>	<u>2002 Goals</u>
Community Lending Program \$35 million	\$26.4 million funded	\$30 million funded
Letters of Credit \$750 million	\$227.7 million	\$250 million
Community Development Investing Purchase Taxable Bonds \$50 million	<ul style="list-style-type: none"> \$50 million taxable bonds purchased \$500,000 commitment to Mountaineer Capital SBIC 	\$50 million taxable bonds
Technical assistance to members and CBOs	CID conducted 4 general workshops; 2 electronic AHP training sessions and numerous one-on-one technical assistance sessions.	Continue workshops and technical assistance.
Implement a small business subsidy program \$5 million accrual	\$4.8 funded-84 businesses assisted, leveraging \$23 million in other financing, creating or retaining 1,169 jobs. An additional \$2.3 million is committed to small business transactions.	\$3 million accrual Commit all subsidy to small businesses.
Mission-related product development Identify mission-related products that have a high probability for success and proceed with product development.	The Bank's product development team developed a credit swap product to support small business development.	Implement credit swap product and explore additional product development opportunities.
Explore capacity-building initiatives Continue predevelopment program and capacity-building initiative.	<ul style="list-style-type: none"> Funded \$23,000 under the predevelopment program Funded 2 capacity-building initiatives: <ul style="list-style-type: none"> University of Pittsburgh West Virginia Affordable Housing Task Force 	<ul style="list-style-type: none"> Provide funds to Rural LISC for predevelopment Continue capacity-building initiatives
Expand access of non-member mortgagees and intermediary lenders Explore opportunities for non-member mortgagees.	<ul style="list-style-type: none"> Discussed opportunities with the West Virginia Housing Development Fund 	<ul style="list-style-type: none"> Housing Finance Agencies have used Bank financing through taxable bond purchases-- No goal for 2002
Establish Bank as a community/ economic development leader Continue building relationships with housing and economic development partners.	<ul style="list-style-type: none"> Co-sponsored a community development conference in Pittsburgh with the National Congress for Community Economic Development Funded two emergency initiatives: <ul style="list-style-type: none"> Clay County, WV, Water Company Allegheny County reassessment The Bank made up to \$1 million available for flood relief in West Virginia 10 Pillars of the Community Awards and 2 Chairperson Awards presented at the Bank's regional meetings A Community Partnership Award event was held in Wilmington, DE 	<ul style="list-style-type: none"> The Bank will co-sponsor a conference with PHFA and partner with the WVHDF to conduct a product workshop and award event

IV. ACTION PLAN DESCRIPTIONS

1. Expand the use of the Bank's existing tools for targeted community lending through the following:

1(A). Loans

The Bank has created a loan product that incorporates the broader eligibility criteria permitted in the CICA regulation. The loan product, called the Community Lending Program (CLP), functions similarly to, and essentially replaces, the Community Investment Program (CIP) for community lending purposes. Pricing of the CLP is at the Bank's cost of funds.

Creative partnerships with federal, state and local economic development funders will be cultivated to produce leverage opportunities. Combining loans with loan guarantees, Banking On Business fund, or creative equity investments from third parties could be incorporated to achieve greater value and impact.

2002 Goal: *The Bank will loan \$30 million in CLP funds to qualified projects.*

1(B). Letters of Credit

The Bank's LOC may be used for a variety of purposes, including to assist members to participate in municipal or state bond issues to fund projects such as hospital expansions, independent living facilities for seniors or other economic development initiatives.

In 2001, Delaware approved policy changes that permit financial institutions to pledge the Bank's LOC as collateral to secure public unit deposits. This authority already exists in Pennsylvania and West Virginia. The Bank is exploring the use of a multi-beneficiary LOC to simplify the processing of public unit deposit transactions.

2002 Goal: *The Bank will issue \$250 million in LOCs.*

1(C). Community Development Investing

The Community Development Investing tool offers great potential for meaningful housing and community development. The Bank has shown a strong commitment to this area by developing strong relationships with the state housing finance agencies.

- ♦ **Purchase of state and local governmental unit bonds:** State and local governmental units within the district have difficulty meeting the collateral requirements for non-member mortgagees. Therefore, in an effort to meet their credit needs, the Bank directly purchases these agencies' debt obligations.

Bank investments in Small Business Investment Companies (SBICs), Tax Increment Financing projects or Section 108 bonds, for instance, offer the potential for innovative financing solutions in meeting credit needs. The Bank will continue to explore these opportunities.

2002 Goal: *\$50 million in taxable bond purchases. Changes to unsecured credit exposure limits may restrict taxable bond purchases.*

1(D). Technical Assistance

- ◆ **Community Support Statement Preparation:** The Community Investment Department (CID) is primarily responsible for working with member financial institutions to complete Community Support Statements. The Bank provides a well-trained group of professionals who are respected by members, community-based organizations (CBOs) and affordable housing developers. This staff regularly meets with members to serve as a resource in completing the statements, as well as providing assistance to these groups on the use of our housing and community investment products. This practice will continue to be provided as a component of the Bank's 2002 Plan.
- ◆ **Liaison Role:** The CID will continue to introduce members to community groups or other sponsors of affordable housing and community development projects. In addition, to serve as an effective liaison with members, the CID and the Government Relations staff continue to forge relationships with organizations and agencies participating in federal, state and local housing programs.

1(E). Banking On Business Program

In 2000, the Bank successfully launched the Banking on Business (BOB) program, which is designed to assist member-financed small business start-ups and expansion. Under BOB, the Bank accrued \$8 million in 2000 and 2001. An additional \$3 million will be allocated to BOB in 2002.

2002 Goal: *Continue the BOB program and increase the percentage of the BOB accruals that are committed to small businesses. BOB funds will also be set-aside for a predevelopment program, emergency assistance and capacity building.*

2. Create new products and delivery capacities to meet economic development needs.

2(A). New Product Creation

2002 Goal: *The Bank will analyze the feasibility of creating new products to advance the Bank's mission. The internal product development team will identify products with the highest probability for success and will proceed with product development.*

2(B). Increase Capacity in Underserved Areas

The Bank will pursue opportunities to enhance the capacity of existing organizations to undertake economic development projects. In some cases, where the structures do not exist, the Bank may serve as the catalyst to create new economic development institutions. For instance, the creation of an SBIC in an underserved area may be an appropriate activity for the Bank. The need for capacity enhancement is especially acute in rural areas.

The Bank recognizes that effective CBOs are a key element in encouraging members to participate in non-traditional partnerships for affordable housing and community development. In studying this issue, Bank staff found that CBOs require additional training in developing business plans, budgets, marketing and technology. The effective use of these tools by CBOs will assist members in understanding the complexities of these organizations, which will enable members to more effectively assist CBOs in improving local communities.

2002 Goal: *As noted under the BOB goal, the Bank will fund a capacity-building initiative in 2002. The Bank will explore capacity building initiatives in partnership with other organizations.*

2(C). Expand Access of Non-member Mortgagees and Intermediary Lenders

For some economic development activities, other organizations may offer the best opportunity to meet credit needs in underserved markets. For example, CDFIs, SBA 504 Corporations or local economic development intermediaries may be appropriate Bank partners for deals that require a higher degree of risk or technical assistance. Incorporating member participation in these partnerships will be explored.

3. Establish the Bank's presence as a community and economic development leader.

The Bank has a unique opportunity to become a leader in community and economic development finance. Our structure as a large wholesale institution, combined with our financial engineering expertise and our strong relationship with a network of nearly 365 financial institutions, are key assets as the Bank

enters the community and economic development arena. The Bank's ability to build on these strengths is a strategic advantage.

Unlike the housing finance system, the community and economic development system is much more fragmented. It is important for the Bank to seek opportunities to improve the financing system by expanding our expertise and by forging strategic partnerships with community and economic development stakeholders. As the Bank expands its expertise and presence in community and economic development finance, additional opportunities will become apparent. In light of these findings, the Bank will implement the following initiatives:

3(A). Facilitate the creation of new partnerships with state agencies, member banks, and other bank constituents.

- ◆ **Conference Sponsorship:** The Bank will co-sponsor a housing conference in conjunction with the Pennsylvania Housing Finance Agency. The Bank will organize a product workshop and recognition event in West Virginia in partnership with the West Virginia Housing Development Fund and other organizations.
- ◆ **Targeted Marketing Strategy:** In conjunction with the Bank's Communications Department, the Community Investment Department has developed a targeted marketing and public relations strategy that includes increased contact with community and economic development organizations. The Bank will monitor the effectiveness of the strategy in 2002.
- ◆ **Pillars of the Community Awards:** At regional stockholders' meetings, the Bank honors community-based organizations and member financial institutions as partners who have completed exemplary housing or community investment projects. At these meetings, non-profit organizations receive a cash award from the Bank. By promoting these awards at the regional meetings, members see firsthand innovative approaches to meeting credit needs within local communities. In addition, the Bank promotes the award recipients via national and local media, as a means to highlight innovative approaches to creating affordable housing and community investment.
- ◆ **Community Partnership Awards:** The Bank aggressively promotes winners of awards, which nationally recognize significant achievements in housing and community revitalization. Promotion of these innovative partnerships via national and local media permits others to see firsthand efforts that meet credit needs within local communities.

V. ADDITIONAL MARKET OPPORTUNITIES RESEARCH

The 2002 Plan requires the Bank to continue conducting research on credit needs and market opportunities. At the onset of its research phase, the Bank aggressively sought to receive comprehensive feedback regarding the needs of underserved communities and populations. This research was designed to provide the foundation for many of the Bank's future lending plans and community investment programs.

The Bank's commitment to accurately assessing the current and future needs of its District will continue. As a supplement to our current research findings, the Bank will have ongoing dialogue with the many agencies, housing developers and member banking institutions that participate in affordable housing and community investment initiatives. Our goal will be to supplement our current information database with new resources which may better equip the Bank to address the goals of its Plan. Such information is expected to be derived from the many partnerships currently existing between the Bank and its various constituents district-wide.